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## **Standing Committee on Finance**

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**EVIDENCE**

**Wednesday, December 3, 2014**

**Chair**

**Mr. James Rajotte**



## Standing Committee on Finance

Wednesday, December 3, 2014

•(1530)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call the meeting to order. This is meeting number 63 of the Standing Committee on Finance, with our orders of the day, pursuant to Standing Order 108(2), study of the subject matter of the supplementary estimates (B), 2014-15, vote 1b and vote 5b under the Canada Revenue Agency. This will be for the first hour, colleagues.

I want to welcome our officials from the Canada Revenue Agency to the committee. We have, first of all, Mr. Roch Huppé, chief financial officer and assistant commissioner, finance and administration branch. We have Mr. Rick Stewart, assistant commissioner, legislative policy and regulatory affairs branch; and we have Mr. Ted Gallivan, deputy assistant commissioner, compliance programs branch.

Welcome to all of you.

I understand,

[Translation]

you have a presentation for the committee, Mr. Huppé. Is that correct?

**Mr. Roch Huppé (Chief Financial Officer and Assistant Commissioner, Finance and Administration Branch, Canada Revenue Agency):** Yes, Mr. Chair.

[English]

**The Chair:** You may begin at any time and then we'll have questions from members after that.

**Mr. Roch Huppé:** Thank you, Mr. Chair.

Good afternoon, and thank you for the opportunity to appear before the committee to present and to answer any questions you may have on the Canada Revenue Agency's 2014-15 supplementary estimates (B).

Mr. Chair, as you are aware, the CRA is responsible for the administration of federal and certain provincial and territorial tax programs as well as the delivery of a number of benefit payment programs. Each year the CRA collects hundreds of billions of dollars of tax revenue for the Government of Canada, and distributes timely and accurate benefit payments to millions of Canadians.

Through these supplementary estimates the CRA is seeking an increase of \$59.8 million in its voted authorities, of which \$13.9 million is related to a transfer from Public Works and Government

Services Canada as a result of a reduction to the CRA's accommodation requirements. This transfer is possible due to a number of initiatives undertaken by the CRA to achieve accommodation efficiencies, which resulted in a reduction in rental requirements by over 30,000 square metres of space, representing a total savings of \$13.9 million.

[Translation]

At this time, I would like to briefly discuss the items that make up the remaining \$45.9-million increase in voted authorities being sought by the CRA through the supplementary estimates.

[English]

First, the Canada Revenue Agency is requesting \$26.7 million to implement and administer measures funded through budget 2014 aimed at improving the fairness and integrity of the Canadian tax system as well as to strengthen tax compliance.

Second, the Canada Revenue Agency is seeking \$12.3 million for the implementation and administration of tax measures affecting individuals and businesses announced in budget 2013, as well as \$1.1 million for administration of the harmonized sales tax and harmonized sales tax credit in Prince Edward Island, which came into effect April 1, 2013.

•(1535)

[Translation]

A further \$2.6 million is being sought for the implementation and administration of tax measures announced in Budget 2014, related primarily to investments to reduce the administrative burden on charities and strengthen compliance with Goods and Services Tax/Harmonized Sales Tax, or GST/HST, registration.

[English]

The incremental funding for tax measures announced in both budget 2013 and budget 2014 will be used to make information technology systems modifications, develop and implement new business processes, develop forms, and update publications and information products related to these measures.

The fourth item requested in these supplementary estimates (B) is an amount of \$2.4 million for the implementation of the intergovernmental agreement between Canada and the United States on the enhanced exchange of information. The funding will be used to develop and maintain new information technology systems, develop and implement business processes, and conduct additional verifications.

[Translation]

The final item for which the CRA is seeking incremental funding is \$800,000 for the information reporting of tax avoidance transactions to ensure the fairness of the Canadian tax system. Budget 2010 introduced a regime under which these types of transactions would explicitly require reporting to the CRA to ensure the integrity of Canada's self-assessment system.

The legislation in support of this new regime was enacted in June 2013. As a result, taxpayers, promoters and advisors using certain avoidance transactions are now required to complete a new information return, which will help the CRA identify aggressive tax planning in a timely manner.

[English]

Also included in the supplementary estimates is a net reduction of \$72.7 million related to the CRA's statutory authorities. This reflects a revised forecast of statutory disbursements to the provinces under the 2006 softwood lumber agreement originally included in the 2014-15 main estimates. As you know, the CRA is responsible for collecting and administering the charges levied on exports of softwood lumber products to the United States as well as making disbursements to the provinces of this amount less administration costs.

The CRA's 2014-15 main estimates included an amount of \$80 million as the forecasted disbursement to the provinces. This forecast has since been revised by the Department of Finance to zero for 2014-15, resulting in the reduction of \$80 million to the statutory authority. The reduction in the forecast is primarily as a result of a recovery and U.S. demand for softwood lumber products.

This reduction is partially offset by an increase of \$7.3 million associated with adjustments to the employee benefit plans.

Following the approval of the supplementary estimates, the CRA's 2014-15 voted authorities will display an increase of \$59.8 million and the CRA's statutory authorities will see a net reduction of \$72.7 million. As a result the CRA's revised 2014-15 authorities will total \$4.188 billion.

[Translation]

In closing, the resources sought through these estimates will allow the CRA to continue to provide quality services to Canadians by ensuring taxpayers meet their obligations, Canada's revenue base is protected, and eligible families and individuals receive timely and correct benefit payments.

[English]

Mr. Chair, at this time my colleagues and I would be pleased to respond to any questions you may have.

Thank you.

**The Chair:** Thank you very much for your presentation.

Colleagues, we'll start members' questions. I think we can do seven-minute rounds for the first four MPs and then we'll go to five-minute rounds after that.

● (1540)

[Translation]

Mr. Caron, you have the floor for seven minutes.

**Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP):** Thank you, Mr. Chair.

Mr. Huppé, thank you for meeting with the committee.

I am going to do a bit of follow-up, since a number of the measures stem from previously passed budget bills.

Vote 1b under the Financial Transactions and Reports Analysis Centre, or FINTRAC, represents a funding adjustment to Canada's anti-money laundering and anti-terrorist financing regime. The measure came from Budget 2014.

Is the funding being sought for specific initiatives or the overall improvement of FINTRAC's analysis system? And if it is for specific initiatives, could you give us some details on them?

**Mr. Roch Huppé:** Are you talking about Budget 2014?

**Mr. Guy Caron:** Actually, I was talking about vote 1b in supplementary estimates (B).

**Mr. Roch Huppé:** You are referring to the \$11.3 million. Okay.

Vote 1b covers a number of measures.

[English]

There are a couple of measures in there. There are some relating to previous budget announcements in 2013 and some that are relating more to the recent budget 2014.

You referred to the combatting of international tax evasion and aggressive tax avoidance. We are seeking \$3 million for fiscal year 2014-15. That's in relation to close to \$15 million that was provided to us over five years for the requirement now of reporting the international electronic fund transfers, so the underground economy and tax evasion. So we have \$15 million as it relates to that perspective.

There are also other initiatives obviously in relation to that \$13 million. There is funding that we receive in relation to scientific research and experimental development to do more outreach for the first-time claimants and also to expand our coverage to ensure compliance, so we're working on non-compliance around that field.

We also received significant funding to increase the resources for what we call our non-audit compliance programs. We ensure that we put more resources to review employer remittance concerning payroll deductions, GST and HST delinquent filers. So we got \$16 million for that perspective. We also got funding to invest in what we call our non-filer program. To attack the underground economy and certain industries like construction we received \$6.6 million and that funding is dedicated to that.

We received funding to address the over-contribution for RRSP contributions. We have funding of \$1.7 million for this fiscal year in relation to our T-1 processing to ensure we put the focus on certain employment expenses that are deducted.

So in a nutshell those are some of the—

[*Translation*]

**Mr. Guy Caron:** Specifically, I was asking about the additional funding being sought under vote 1b. So there aren't any specific initiatives. It is money you need to round out the funding already allocated to various activities. Is that correct?

**Mr. Roch Huppé:** Precisely.

My comment had to do with how the amount you see under vote 1b is broken down. It covers a number of sub-activities. We received funding to take further measures in areas where we are already active, but we also need to expand our efforts in verification and other activities.

**Mr. Guy Caron:** Fine.

I think I have time for one more question.

Under votes 1b and 5b, the Canada Revenue Agency is seeking funding for the implementation of the intergovernmental agreement between Canada and the U.S. in relation to the Foreign Account Tax Compliance Act, or FATCA.

When the committee was studying the legislation setting out the agreement's implementation, Bill C-31, experts expressed concerns about the intergovernmental agreement. One of their concerns was the fact that the definition of a "financial institution" was being changed and replaced by 13 types of entities—14 with the most recent amendment contained in Bill C-43. That definition is not compatible with the intergovernmental agreement and needs to be changed.

The definition has given rise to major problems, such as the exclusion of most Canadian private trusts despite their inclusion in the intergovernmental agreement, as well as the lack of clarity around investment entities. These are some of the criticisms we heard from witnesses when the bills were under study. Some experts even said that adopting FATCA could undermine the implementation of the intergovernmental agreement.

I'd like to ask you two quick questions on the subject. First of all, have there been any discussions to incorporate changes that would clarify things, allowing for clear implementation of the legislation and regulations?

• (1545)

[*English*]

**Mr. Rick Stewart (Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency):** Mr. Chair, if I may, I think the question that is being asked is more directly a question for our Department of Finance. It's a policy question issue.

I know as we were looking at implementing and putting together the IGA, the intent was to find a way for Canadian financial institutions to be able to respond to and respect the obligations that the FATCA is imposing on financial institutions globally and to do it

in a way that would provide them with, if you will, the protections of the existing tax treaties for information exchange that we have with the United States.

I think what I can tell you is that a lot of work went into trying to work with American counterparts through the Department of Finance to determine the parameters of that agreement and finding a way that kind of balanced the need for reporting with the impact on Canadian financial institutions.

[*Translation*]

**Mr. Guy Caron:** Thank you very much.

I realize you weren't able to answer that question, but perhaps you can answer this one.

When the committee was studying the matter, the department wasn't able to provide us with the costs of the agreement, for either the agency or the financial institutions. Do you now have that information, from the moment when the funding for implementation is released?

[*English*]

**Mr. Rick Stewart:** The costs that we are working with for our ability to implement the obligations that we have to administer this agreement is funding of, I believe, \$15.7 million or \$15.8 million, which has been allocated to the CRA to implement this over these next few years.

Those costs are principally intended to support the costs of implementing a new electronic form for mandatory filing for financial institutions to be able to file their obligations to us, a database in which we would be able to receive and store that information, and the tools to give us the ability to select files from that database for subsequent transmission electronically to the Internal Revenue Service in order to comply with those obligations.

**The Chair:** Mr. Gallivan, did you want to add something very briefly to this, please?

[*Translation*]

**Mr. Ted Gallivan (Deputy Assistant Commissioner, Compliance Programs Branch, Canada Revenue Agency):** I will answer the question pertaining to the votes.

The funding being sought today establishes a system. Regardless of which institutions are included, no additional costs will be incurred. We are building a system that can be adapted regardless of which institutions satisfy the definition under the bill.

**The Chair:** Thank you.

Thank you, Mr. Caron.

[*English*]

Mr. Keddy, please, you have seven minutes.

**Mr. Gerald Keddy (South Shore—St. Margaret's, CPC):** Thank you, Mr. Chairman.

Welcome to our witnesses. There are a number of areas that I'm sure all my colleagues will have questions on, but there are a couple of areas that I'd like to just drill a little deeper into with your expertise and your help if you could.

For instance, I'd like to clear the air on something that has been brought up by the opposition on a regular basis. In a recent message to all CRA employees, the commissioner, and the deputy commissioner, said:

To be clear, the process for identifying which charities will be audited for any reason is handled by the Charities Directorate alone and, like all of our audit activities, is not subject to political direction.

Because we've heard two sides and two points of view on this we'll ask the expert. Is that quote accurate and can you confirm if the process for identifying which charities will be audited for any reason is subject to any political direction, or is it handled exclusively by CRA's charities directorate?

**Mr. Rick Stewart:** Thank you for the question, Mr. Chair.

I can confirm definitively that the commissioner's statement is accurate and true. The management of the regulatory responsibilities that the CRA has for charities registration, monitoring, and compliance rests solely with CRA departmental officials. The minister and the minister's office are not involved in any way in the determination of any charities that are selected for audit activity or review.

● (1550)

**Mr. Gerald Keddy:** You know, question period is a great opportunity to blatantly spread misinformation. One of the other points that you hear all the time, being brought up by a number of members, is that somehow no centre or centre-right charities or more right-wing charities are being audited whatsoever.

So for the benefit of everyone maybe you can explain how anyone would know that. CRA audits are private and confidential. They're not given to the public in any way, shape, or form. So there's no way to know who's being audited unless the group being audited actually cares to divulge that information. Is that correct?

**Mr. Ted Gallivan:** That is correct, Mr. Chair. I guess what I would say is that there is no way. I'm in no position to either confirm or deny that any taxpayer or any charity may or may not be under audit. Indeed, that is information that must be protected for taxpayer confidentiality. The fact that certain organizations are allegedly under audit by the CRA is only public knowledge because those entities have chosen to declare that they are being subject to some kind of activity with the CRA. But I can't comment further and I can neither confirm nor deny that any organization is....

**Mr. Gerald Keddy:** Well, I think your clarity is much appreciated on this side of the table at least.

The other question that we need a little more clarity on is about CRA auditors. Are there more auditors on staff at CRA today than there were in 2005 and are those auditors being effective? We consistently hear from the opposition that we have fewer auditors, that we have fewer auditors in the offshore and in the domestic marketplace. What's the answer?

**Mr. Ted Gallivan:** If I may, from 2006, which is the figure we've been focusing on, we had 5,200 auditors and today we have 6,042 auditors. So the number of auditors has actually gone up, not down. Now we have implemented efficiency measures. Most recently, we had 186 managerial employees that were affected. That doesn't mean they lost their jobs. It means they received a letter saying they would be reassigned new responsibilities, so from our perspective we were

trying to reassign them from semi-managerial responsibilities to audit responsibilities, actually increasing the number of auditors we had. As a result, there was a bit of a span of control issue. But anyway, the bottom line is that we have made changes to become more efficient and more effective but absolutely there's no reduction in the number of auditors.

**Mr. Gerald Keddy:** Then actually there's an increase in the number of auditors.

**Mr. Ted Gallivan:** That specific measure I referred to would have increased the number of auditors by 186. That's correct.

**Mr. Gerald Keddy:** Thank you.

There's a number of items that there's a fair amount of misinformation out there on. One of them is the voluntary disclosure program. It's administered by CRA and promotes compliance with Canada's tax laws. So Canadians take advantage of this program if they've not been entirely truthful on their tax returns and it is relevant in cases of both domestic and international non-compliance. Can you explain a little bit on how this program works, what we've seen in the increase in the per cent of compliance, and why Canadians are availing themselves of this program? Obviously, it's a program that we've seen expanded use in and increased revenue collected by Canada Revenue Agency.

**Mr. Ted Gallivan:** Briefly, a voluntary disclosure program is a means for taxpayers to come forth and correct their tax affairs without being subject to the extra penalties associated with CRA finding them out and then assessing the amounts. From 2008-09 until today overall voluntary disclosures are up roughly 80%. However, international voluntary disclosures, that subset, is up 400%. At the same time there have been a number of tightening measures and increased emphasis in the offshore space and also we have taken greater efforts to communicate new measures such as the electronic funds transfer mechanism that's coming into force January 1, 2015, mentioning that to encourage and incite taxpayers to correct their tax affairs proactively before we come knocking on their door with an audit.

**Mr. Gerald Keddy:** Along with the voluntary disclosure program, we have the offshore tax informant program. It should allow us to gain valuable information on the international tax cheats and tax evasion schemes.

Do you have a percentage or a real number for the files we have been able to complete because of this program?

● (1555)

**Mr. Ted Gallivan:** It's a relatively new program that has had 1,500 phone calls and 170 written submissions, many of which are very promising and at the contracting stage. So this program appears to be meeting its intent.

**Mr. Gerald Keddy:** That's excellent.

**The Chair:** Thank you, Mr. Keddy.

[Translation]

Mr. Dubourg, you have seven minutes. Go ahead.

**Mr. Emmanuel Dubourg (Bourassa, Lib.):** Thank you, Mr. Chair.

Now, it is my turn to welcome you, gentlemen. I'm very glad you are here to answer our questions. Let's start out general.

I know that the CRA's tax system is self-assessment-based. In the media, we often hear about how difficult it is for people to understand letters from your agency. What's more, I believe some cuts were made in relation to client services.

What is the CRA doing to support the self-assessment system and encourage taxpayers to file their income tax returns so they can comply with the Income Tax Act as easily as possible?

**Mr. Ted Gallivan:** We focus our efforts on two areas.

The first is e-services. Depending on the service, about 70% to 80% of Canadian taxpayers currently use our online services. We've invested heavily in that component. The second revolves around reducing the administrative burden, in other words, reducing the red tape to make voluntary filing easier.

Those are the two areas that the agency is focusing on, eliminating obstacles and making it easier to file documents online.

**Mr. Emmanuel Dubourg:** Thank you.

Under one of the votes, you are seeking approval for \$26.7 million in additional funding. The money is for enhancements to non-audit compliance programs and the information reporting of tax avoidance transactions.

What programs will be funded? And what specific enhancements will be made to those programs?

**Mr. Ted Gallivan:** We will use some of that money to step up our efforts in the construction industry. I don't want to single any companies out, but there are cheque cashing services such as Money Mart. There are also gift cards. And a lot of people use those methods to avoid paying taxes. This funding will allow us to expand our focus on these services. We will be able to collect a lot more information and follow up on it.

Our focus is on the underground economy. I just listed three examples of specific industries. We expect these measures to generate an additional \$700 million.

**Mr. Emmanuel Dubourg:** The vote refers to non-audit compliance programs, and you just mentioned the construction industry. But the auditors assigned to the underground economy target those areas, do they not?

**Mr. Ted Gallivan:** Obviously, there is no need to perform a tax audit on an individual who does not file a return. It is simply a matter of identifying the individual and working with them so that they file a return.

**Mr. Emmanuel Dubourg:** In terms of complaints or tips you receive from sources, I understand that you can't reveal the identity of taxpayers who are being or have been audited. Recently, however, have you received a lot of tips about charities? Many of them have complained about that, especially environmental groups, which we hear a lot about these days. Has the number of complaints gone up? And where does that information come from, if you can tell us that?

**Mr. Ted Gallivan:** That is a good question. I would like to get back to the committee with an accurate answer to that.

I can tell you that we receive 30,000 complaints a year. The number of complaints has remained constant, but I am not sure whether the percentage of charity-related complaints has changed. I can, however, get back to the committee with that information.

**The Chair:** Mr. Dubourg, you have three minutes remaining.

**Mr. Emmanuel Dubourg:** Thank you, Mr. Chair.

Go ahead, Mr. Stewart.

**Mr. Rick Stewart:** I may be able to add something to that.

[*English*]

We have measured or taken stock of the number of formal complaints concerning political activities of charities that we have received since 2008-09. They range between 20 and 159 complaints of some sort. I do not have information that breaks down the nature of those complaints, just the fact that we received complaints.

What I would say is that we receive information from a variety of sources all the time in support of our compliance activity. We receive information internally,

[*Translation*]

from departments through their programs and activities.

[*English*]

We also receive information through our own monitoring of media reports and web postings—that sort of thing—and self-declarations by charities on their annual information returns.

As part of our general activity, setting aside whether it's a political activity allegation, we look at all of this information. That's not to say that we then proceed and pursue discrete actions in all of those cases. It's incumbent upon us, I think, as responsible regulators to at least look at information that is brought to our attention to determine whether or not there is an issue. The existence of a complaint does not necessarily imply that there will be some kind of follow-up CRA action.

• (1600)

[*Translation*]

**The Chair:** Mr. Dubourg, you have the floor.

**Mr. Emmanuel Dubourg:** Thank you, Mr. Chair.

Not that long ago—about two weeks ago, I believe—the minister referred to an underground economy advisory committee. But such a task force has been around since 2004 or 2005. What more will the new committee do in terms of the CRA's efforts? We already know which industries are involved as well as what is going on. We've even got an evaluation. What more will the committee bring to the table?

**Mr. Ted Gallivan:** All of our efforts have been focused on those who provide services to the people in the underground economy, and we will continue to focus on that. The new dimension is that we'll be able to go after the other half of the equation, consumers who might be tempted by the underground economy. To target consumers, we need third parties. We have mobilized those third parties, so we can educate consumers about the importance of not participating in the underground economy.

**Mr. Emmanuel Dubourg:** Thank you.

**The Chair:** Thank you, Mr. Dubourg.

[English]

We'll go to Mr. Allen, please.

**Mr. Mike Allen (Tobique—Mactaquac, CPC):** Thank you very much, Mr. Chair.

Thank you to our witnesses for being here.

I want to follow up with a few questions with respect to the intergovernmental agreement and FATCA.

I think, Mr. Huppé, you talked about \$2.4 million to implement the intergovernmental agreement with the U.S.

Then, Mr. Stewart, you talked about \$15 million allocated over the next few years to enable the implementation of FATCA.

Just how do the \$2.4 million and the \$15 million work in the estimates?

**Mr. Roch Huppé:** In the estimates process, the \$2.4 million is what we're seeking to bring in for 2014-15 expenses related to this. So yes, it's included in that \$15 million.

**Mr. Mike Allen:** How many years do you figure it's going to take to round this out? Will it be five years before you meet all the objectives?

**Mr. Rick Stewart:** I have the number of years.

Let me clarify. If I said \$15 million, I believe I misspoke. If I might be permitted to correct myself, it's \$5.8 million over the period 2014-15 to 2018-19.

**Mr. Mike Allen:** Okay.

**Mr. Rick Stewart:** The bulk of those resource requirements are in 2014-15, because we're setting up the front-end system to be able to receive and transmit the information. Then there are some smaller amounts on an ongoing basis in those outer years to manage the ongoing vetting and assure ourselves that the information is of good quality.

**Mr. Mike Allen:** Okay. Basically it's \$2.4 million in 2014-15 and then another \$3 million or so spread out over the next four years.

**Mr. Roch Huppé:** Absolutely. This is what was officially announced as new funding for the CRA to move on this.

**Mr. Mike Allen:** Okay, that's helpful.

Also, I'd like to ask you, as we start getting into more and more intergovernmental agreements and tax exchange agreements, what the impact on the agency is, as we sign more of these. Presumably there would have to be dollars spent to meet the objectives of these intergovernmental agreements.

Do we have a history of what it generally takes, from the standpoint of the CRA, to meet those objectives and of what investments are made in IT systems to meet the objectives of those agreements?

•(1605)

**Mr. Ted Gallivan:** I think the IT investments are before the committee today. Those are the amounts, and then we use that to better target our audit efforts. Then we reallocate our existing resources, the 6,000 auditors I told you about earlier. So with the treaties, we have 91 treaties enforced today. We have roughly 20 TIEAs, so we have a broad network of international agreements that give us better data that lead to results like in the aggressive tax planning area. Last fiscal year, we assessed \$1.7 billion. So there is a clear track record of strong financial results coming from these kinds of investments, which better directs the 6,000 auditors I told you about earlier.

**Mr. Mike Allen:** Okay. That's helpful because the tax information exchange agreements and the intergovernmental agreements that we do have and the systems implementations that we do and the upgrades actually help you focus those auditors. In some ways, it probably saves them a lot of time as well. Is that true?

**Mr. Ted Gallivan:** That's correct. It also saves us from knocking on the doors of taxpayers who are otherwise compliant that we shouldn't be knocking on.

Just a clarification though, FATCA isn't going to be in...it's not necessarily analogous in the sense that....

**Mr. Mike Allen:** I understand.

Carrying on to that now is the online filing. I would just like to understand a little bit as you're going through your multi-year upgrade to your processing systems, how those upgrades helped with respect to managing the online filing process. How scalable are your systems when we make changes or as we have more filers come online and that type of thing? Can you talk about the success of online filing and the percentages we're now seeing and the scalability of the systems to handle more?

**Mr. Ted Gallivan:** Absolutely.

As I mentioned in an earlier response, we're well over 70% in online filing for most types of returns. Those permitted certain efficiencies to the agency, but also efficiencies to taxpayers who receive their refunds in a very short timeframe. It also weeds out errors. The electronic filing process also allows errors to be identified right at the outset and taxpayers to kind of self-correct.

Increased IT also allows us to move into apps. The agency recently launched its first mobile app. We're also developing mobile-friendly applications. So these IT investments allow us to move out of the old bricks and mortar mainframe era to an environment where taxpayers can file their tax returns over their phone and over their mobile device.



**Mr. Mike Allen:** I'm just following up on that. How is that linked with the tax preparer program that this year CRA's actually implementing? You know, you hear some of the small tax preparers having to pay and register for this program a little bit of consternation about that, but given the amount of changes that CRA is going through, system changes, online filing, and staying up to date, how do those two things link together?

**Mr. Ted Gallivan:** I think it goes back to the point raised by the other member regarding voluntary compliance. Our tax regime works through voluntary compliance with the collaboration of a lot of key stakeholders including the tax preparer community. We have begun discussions with the tax professionals around the registration of certain tax preparers, which they see as a welcome sign because, I'll use the word, "legitimate" tax preparers definitely want the seal of approval from the CRA in the sense that they're part of the club and are recognized as these valued stakeholders. I think Canadians also want that assurance. So we've been working with the tax professionals to evolve a regime where that would be recognized through formal registration with the CRA.

**The Chair:** You have about 30 seconds, Mr. Allen.

**Mr. Mike Allen:** Okay.

Last quick question, the \$2.6 million for tax measures and implementation to lower the burden on charities, can you talk about one or two major burdens that you're reducing for charities?

**Mr. Rick Stewart:** I think the biggest advantage or the biggest part of those moneys is used to create an electronic application and annual reporting system for charities. Currently their only ability is to file this to us in paper format, which is cumbersome and frankly old world.

The moneys that are being sought this year are the first-year funds to start putting in place the IT system that will allow for that electronic interface and exchange, which should significantly reduce the burden on charities to actually file and meet those compliance obligations.

•(1610)

**Mr. Mike Allen:** Thank you very much.

Thank you, Chair.

**The Chair:** Thank you, Mr. Allen.

We'll go to Mr. Rankin, and we'll do five-minute rounds, colleagues, from now on.

**Mr. Murray Rankin (Victoria, NDP):** Thanks, Chair.

Thank you to the witnesses.

In the departmental performance reviews that were released a few weeks ago, it was revealed that the CRA drastically missed its targets, 56% versus 90%, on the number of full-scale investigations that are referred to the director of public prosecutions.

I wonder if you could explain why the targets aren't being met.

**Mr. Ted Gallivan:** As you may be aware, in 2012 we started a transformation of our criminal investigations directorate function. We made two major changes, one being centralization into six sites to be co-located with the RCMP and the public prosecutor, and the second being upgrading the classification of the employees.

Through that transition we haven't fully utilized all of the FTEs, because we've had delays in staffing those positions, so this is a byproduct of working through that transition, which we think will leave us at the end with a stronger criminal investigations function that's better focused on the worst offenders.

**Mr. Murray Rankin:** Thank you. That makes sense.

Turning to the issue of auditors—I'm talking now of senior auditors—an order paper question that we got a response to last year showed that in the international audit program and in the aggressive tax planning program there had been a significant decline from 2008-09 to the present in the number of senior auditors. In fact, information I have received says that 70 such senior positions were eliminated, representing more than a thousand years of specialized expertise, with 50 senior people actually losing their jobs.

Could you comment on that?

**Mr. Ted Gallivan:** Again for clarity, we haven't reduced the number of auditors. We have made a number of changes in terms of specialization, structure, and organizational reporting relationships that sometimes give rise to these misconceptions.

I don't have the specific numbers you've quoted in front of me, but I would be happy to provide a specific response to the question.

**Mr. Murray Rankin:** This is about senior people. I understand the number of total auditors, young people, but I'm talking about thousands of years of corporate expertise going after some of the most complicated tax avoidance schemes. That expertise has been lost, according to the information we've had.

**Mr. Ted Gallivan:** We work very hard to retain those people and have actually increased the grades and levels. Generally the trend has been upwards, an increase, and we very much recognize the importance of having the right people—skilled, trained people.

**Mr. Murray Rankin:** That makes sense.

Now, here is an issue that came up last week in the House. We've learned of yet another massive privacy breach, and by way of preamble I want to put this question in context.

Apparently, in 2011 it was revealed that CRA employees had snooped on personal files, accessing more than 37,000 emails and 800 documents. Four years ago a CRA employee lost a laptop with 2,700 Canadians' tax information. Last year the Privacy Commissioner flagged as a serious problem the weak security measures at CRA. The Heartbleed virus was last week's privacy breach.

What do you consider to be the root cause of these serious problems?

**Mr. Roch Huppé:** First of all, we take protection of information very seriously, obviously. We're a very large organization; the volume is extremely high. We have in place control frameworks to make sure that we protect information and that only those people who should have access to it do. That said, these controls have picked up instances of employees accessing information they should not have accessed.

As we increase our controls and have better monitoring of the different accesses, we sometimes fall upon somewhat more cases. In the last year, for example, we're dealing with 75 cases of employees who have accessed information that they should not have accessed. Investigations have been launched in all of these cases.

**Mr. Murray Rankin:** The Privacy Commissioner last year pointed out that there had been 2,983 data breaches with 2,249 individuals impacted, with only 23 of those reported to the Privacy Commissioner involving 470 people impacted.

That's 1% of the cases reported to the Privacy Commissioner. Doesn't that give you concern, that the Privacy Commissioner is getting so little involved in this issue?

**Mr. Roch Huppé:** In our current action plan, as a result of that audit, I can assure you that we have put in place some processes to ensure that we report these privacy breaches in a timely fashion to the Privacy Commissioner.

**The Chair:** This will be a last, brief question.

**Mr. Murray Rankin:** Mr. Stewart, how much of the \$13.4 million of additional money to audit political activities of charities has been spent to date?

• (1615)

**Mr. Rick Stewart:** I'll find that answer, so as to not take up your time. I'll come back to it.

**The Chair:** All right, we'll come back to that. You can submit all that information to the clerk, and we'll ensure that members get it.

Thank you.

We'll go to Mr. Adler, please, for five minutes.

**Mr. Mark Adler (York Centre, CPC):** Thank you very much, Chair, and thank you, officials, for being here this afternoon.

I want to talk about the underground economy. As you know, this is business activity that goes either unreported or under-reported. I want to ask you first of all about what measures CRA is taking to combat the underground economy.

**Mr. Ted Gallivan:** I think I'd start with specialized teams, which actually got ahead of our recently released strategy. It was implemented in 2012-13.

These are 20 sites where we have specialized teams with specialized experts who are more on the investigative side of our workforce. They did 8,000 audits last fiscal year and 83% of the time they found a reassessment and they raised \$718 million in new revenue.

We're also working with outreach. We've implemented something called the liaison officer initiative to be visible and proactively assist businesses. We've also started to focus on the supply side, as I mentioned in a prior response. We are partnering with other

organizations with something like the "Get it in Writing!" campaign, for example, that we have with the Canadian Home Builders' Association, that warns Canadians about the perils of participating in the underground economy. We're trying to inform consumers that if you hire a contractor to build a deck it's not just that you're saving a bit of money, but as somebody who engages in the underground economy may not respect standards, perhaps you are putting the lives of your children at risk. We're trying to paint that picture for Canadian consumers.

**Mr. Mark Adler:** So there's really an education process that's going along with this, is there not?

**Mr. Ted Gallivan:** That's one of the three pillars in our recently enhanced UE strategy that was released two weeks ago. We definitely want to begin to affect the demand side with consumers, and also partner with other organizations to extend our reach and get the message out.

**Mr. Mark Adler:** I love what you've got on your website on the UE where it says, "It robs the tax base of needed funds for schools, hospitals, and more." And then in big bold letters, there's "Don't do it!"

I also want to talk to you about electronic suppression of sales or zipper software. How much of a problem is that in Canada and what's CRA doing to combat that?

**Mr. Ted Gallivan:** It's a prevalent problem.

The Government of Quebec went forward with a receipting regime, which basically asked businesses to install extra equipment. There was government expense and a lot of red tape. We chose a different path, which is a more significant sanction if it's detected.

We led off with communication and we've been seeking to educate and communicate to the business community that we have these new sanctions that are available. Moving forward from September 1 in new audits, we will be imposing these increased sanctions. So the agency's strategy, rather than penalizing or putting a burden on all business, we're just going to put an extra penalty or sanction on those businesses that are found to have these devices in their businesses.

**Mr. Mark Adler:** I understand also that the minister recently announced the establishment of the economic advisory committee on the underground economy. This committee comprises industry stakeholders and business leaders. Can you talk a bit about that? It's the first of its kind. I know it's fairly recent, but can you talk about the efficacy of it?

**Mr. Ted Gallivan:** There are a few different objectives there. The first is, again, to collaborate with parties outside the CRA to help them push people in the same direction. I think of cross-communication as an example.

The second is to better understand the behaviours and motivations of people participating in the underground economy so that we can leverage those. In other words, we don't want to continuously increase the number of auditors and audit more and more businesses. Rather, we want to seek to influence people's behaviour, and by understanding the motivations and drivers we can better do that.

Third, in contemplating new measures we want to be careful that we don't impose an undue burden on businesses, particularly small businesses. We think that by talking to experts we can be better informed.

Finally I would just add, nudge theory has gained a lot of prominence in the U.K., and in Canada now. We're starting to build specialized units around nudge, so we have academics participating in the committee, kind of giving us the latest science around modifying people's behaviours.

• (1620)

**Mr. Mark Adler:** It was really important that you mentioned the fact that it's not just a matter of revenue loss to the treasury, it's also a matter of standards that aren't being met.

I know some people have told me that they had work done that they paid cash for and didn't report it and their work was shoddy and the builders were using materials that weren't up to standard and counterfeit materials and all of that, so I think it's really important that you mention that and that people are aware. It's not just a matter of not paying taxes and all the consequences that go along with that, but it's also a matter of people not using the right standards, aren't up to code, and all of that. I'm glad you mentioned that.

**The Chair:** A brief response, please....

**Mr. Ted Gullivan:** I think that's consistent with our approach that we don't just want to audit, but we want to deter.

**The Chair:** Thank you.

Thank you, Mr. Adler.

We'll go to Mr. Cullen, please.

**Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP):** Thank you.

Thank you to our officials. Don't take the increased heat in the room personally. We didn't do this just because CRA was coming today. It's some fluke of the environmental systems.

What is the current outstanding balance in undisputed and unpaid taxes in Canada? Do we have a current figure for that?

**Mr. Ted Gullivan:** It would be in the range of \$41 billion. I will correct it and give you the specific number.

**Mr. Nathan Cullen:** Sure, but it's in the \$40 billion to \$41 billion range.

I'm a bit curious about that simply because the Auditor General, in the 2012 report, set it at about \$29 billion. Am I referencing the same number or is there something different between the two?

**Mr. Roch Huppé:** I think the \$29 billion you're referencing is the receivables that we actually have access to. This number is approximately \$33 billion right now.

**Mr. Nathan Cullen:** So it's gone from \$33 billion in 2012.... The \$41 billion is a larger number.

**Mr. Roch Huppé:** It probably includes the amounts in appeals right now.

**Mr. Nathan Cullen:** Okay, so that's including the....

But when I see the trend over time, we've gone from \$18 billion in unpaid taxes in 2006 to \$29 billion six years later in undisputed and unpaid taxes. Now you're suggesting it's about \$32 billion, two years later. Explain to me why that's not a worrisome trend.

**Mr. Ted Gullivan:** It is a trend that we're managing closely; however, I would add that we've taken on responsibility for the provincial sales tax from the Government of Ontario and we've taken on responsibility for corporate tax from the Government of Ontario. Generally, revenues are up, so there is a driver in terms of the overall revenue base going up.

**Mr. Nathan Cullen:** Now my colleagues are going to say that it's Kathleen Wynne's fault, and that's unfortunate.

But can you understand the broader perspective? I understand taking in Ontario, but we've almost doubled the unpaid and undisputed taxes owed to the Government of Canada in just eight years since the Conservatives took over. That's a spike. Are you expecting this to go down? Are we going to return to those heady days of being owed only \$18 billion in undisputed and unpaid taxes?

**Mr. Roch Huppé:** There are a lot of efforts going on in collections.

What I can tell you is that the increase is in line with the increase in revenues. Just last year in 2013-14 we actually resolved \$46 billion of the receivables envelope. If you would take a look at the portfolio from an aging perspective, those accounts over five years old represent about 15% and our target is about 18%, which we feel is acceptable.

We were benchmarked a couple of years ago through an international review done by Capgemini, against 10 other countries and we came up in the top two countries in many areas. For example, we have the lowest cost of collecting each dollar of debt. We collect the most debt as a percentage of our total tax revenues.

**Mr. Nathan Cullen:** Thank you, Mr. Huppé.

I want to switch topics just a little bit around the \$13.4 million spent on auditing charities. Is there a working definition that you can give to the committee of what "political activity" is, which the CRA is using?

**Mr. Rick Stewart:** Yes, there is.

Political activities are those that seek to:

...further the interests of a particular political party; or support a political party or candidate for public office; or

retain, oppose, or change the law, policy, or decision of any level of government in Canada or a foreign country.

You'll find that information on the CRA charities website.

• (1625)

**Mr. Nathan Cullen:** Has that definition changed at all over the last five years or is that consistent?

**Mr. Rick Stewart:** No, it has not.

**Mr. Nathan Cullen:** Does the CRA study tax compliance costs, the tax burden for compliance in Canada more broadly speaking? Do you make any assessment of this?

**Mr. Ted Gallivan:** We certainly make use of external assessments and take note. There have been some positive external reports around the tax burden on business, particularly with those measures around harmonization in Ontario, for example.

**Mr. Nathan Cullen:** I have two last questions.

Quickly, have you done any assessment on the compliance burden on those charities that you've been auditing?

**Mr. Rick Stewart:** Not specifically.

**Mr. Nathan Cullen:** Okay.

The last question, there was a corruption issue that came up with CRA when a \$400,000 cheque was delivered to a Mafia leader who owed us \$1.5 million. The minister at the time said that there would be an internal investigation. Do we know the status of this investigation, and will the results of it be made public?

**Mr. Roch Huppé:** They actually were, last December. The results of the investigations were published.

**Mr. Nathan Cullen:** Is that the end of it, as far as the CRA is concerned?

**Mr. Roch Huppé:** We've looked at the observations. We made some modifications concerning our processes and made sure we had good communication.

It was basically human error, not following proper processes, that led to the cheque being released. We obviously took a look to make sure that we have enough rigour in our processes to ensure that these things would not happen again.

**The Chair:** Thank you.

Mr. Huppé, I would like just one clarification. You mentioned an 18% figure. That's 18% of gross revenues, is that correct?

**Mr. Roch Huppé:** If you take a look at our overall receivables portfolio—what we could work on, the \$33 billion that I was referring to—15% of our accounts are over five years. The target that we set for ourselves in the agency is that we want to make sure we manage the portfolio such that there is never more than 18% of our receivables that are over five years.

**The Chair:** Okay. I think the committee would find anything further on that topic of interest, if you want to provide anything further.

Thank you.

We'll go in the final round to Mr. Van Kesteren, please.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Who would think that revenue would be such a fascinating subject?

**A voice:** What's wrong with revenue? I like revenue.

**Some hon. members:** Oh, oh!

**Mr. Dave Van Kesteren:** What do you deem as an acceptable loss rate? If you have 18% on the books, what do you write off? In business we used to write off whatever the bad debts were.

What is a bad debt? What is acceptable?

**Mr. Roch Huppé:** I don't have the exact amount that would be acceptable as a percentage. We have very clear directives in the government as to what we can write off.

**Mr. Dave Van Kesteren:** But you can't get blood out of a stone, so with bankruptcy and stuff like that....

**Mr. Roch Huppé:** When we proceed with the write-off of certain of these accounts, the accounts are not necessarily washed away. If by any chance there is new information that leads us to believe we're in a position to collect from these accounts that have been written off, we will take those actions.

**Mr. Dave Van Kesteren:** One could have gone bankrupt, become destitute, and later in life maybe had things turn around.

**Mr. Roch Huppé:** If the financial situation changes, we will continue to proceed.

**Mr. Dave Van Kesteren:** So the debt is never really forgiven, is it?

**Mr. Roch Huppé:** No, the debt is never really completely written off.

**Mr. Dave Van Kesteren:** I'm not suggesting that this is the case, but nowadays, when we electronically file our tax returns, you have access to a lot of pertinent information.

Is this a trend? Can we expect to see it leading finally to the IMF participating globally and companies finding that it's going to be increasingly more difficult to hide or shift money around, if that's what they're doing? Is there a trend moving in that direction? Is it something you're collaborating on with various countries?

**Mr. Ted Gallivan:** Certainly BEPS, or base erosion and profit shifting, is a G-20/G-8 concern in which Canada is playing a leading role with the OECD and other organizations. People are talking about country-by-country reporting, and we're talking about multi-lateral frameworks. So there definitely is a global priority around getting a complete picture on multinational entities, if that answers your question.

**Mr. Rick Stewart:** Let me just add to that. One part of this exercise or effort is to clarify the rules for international business transaction; that's the BEPS work. The other part of this is an increasing collaboration and the development of a multilateral exchange-of-information arrangement whereby it will be easier to exchange relevant tax information with a broader set of countries in the world, including those jurisdictions that are familiarly considered to be those of concern to individuals.

• (1630)

**Mr. Dave Van Kesteren:** You do not have the reputation of the American tax collectors; however, it is a fearful thing to fall into your hands.

**Some hon. members:** Oh, oh!

**The Chair:** Order, please.

**Mr. Dave Van Kesteren:** If there is one thing that is really heart-wrenching, it is to have a constituent come in who has issues with Canada Revenue, and when you look over their files, you realize that they are in trouble.

I wonder how this comes to be. You alluded to this earlier, but is there more communication starting to happen—and I'm speaking about businesses—so that they understand early on that these are their obligations, so that they can quickly get to them before they get into too much trouble? Is this something you're working towards? Is it something we can expect to see in the future?

**Mr. Ted Gallivan:** Absolutely. I mentioned the increased communication around something like the UE, where we definitely see the value in communicating up front, so people get it right, from the start. I also mentioned the liaison officer initiative, where we've taken 150 auditors and said, no, we don't want you auditing people after the fact, several years down the road when there's a huge bill. We want you going to visit businesses in their place of business, to help give them information and advice, talk to them about common errors before they file their return, so they get it right. We absolutely appreciate the value of early certainty, and are trying to reallocate our resources to make that a greater priority.

**Mr. Dave Van Kesteren:** Finally, somebody mentioned something about compliance and tax cheats. I think anybody who's been in business has had situations where they've used loopholes that are

legitimate. Are you giving more information to businesses too, so that they don't fall into traps that cause them grief down the road?

**The Chair:** Just a brief response, please.

**Mr. Ted Gallivan:** We call people tax promoters, and they're definitely a priority for us, including criminal investigations.

**The Chair:** Okay, thank you.

Thank you, Mr. Van Kesteren.

I want to thank our three officials for being here for this session. I appreciate that.

I think you found there were a lot of questions from members but it was a very informative session, so we appreciate your time very much.

Colleagues, we will suspend for a few minutes, and then we'll go in camera for our prebudget report.

*[Proceedings continue in camera]*

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